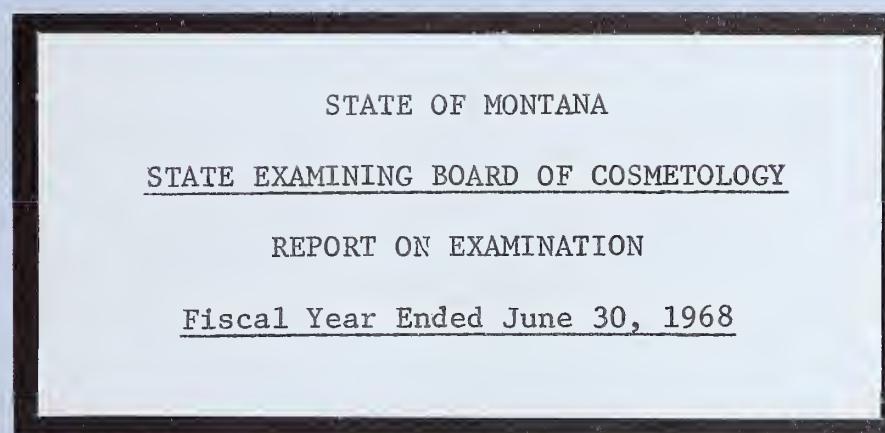


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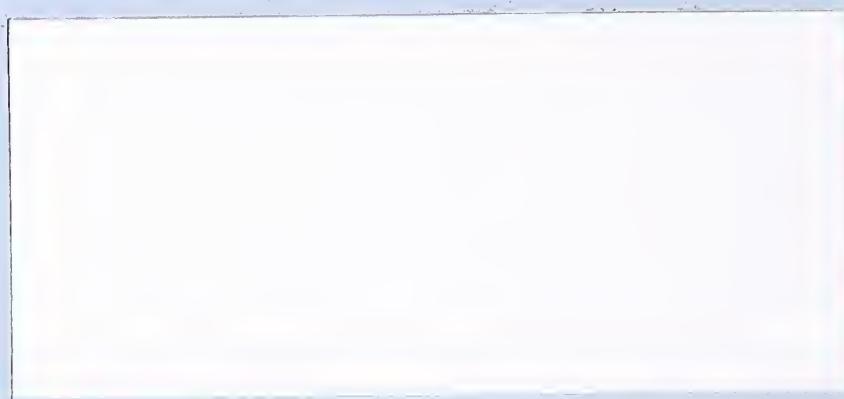
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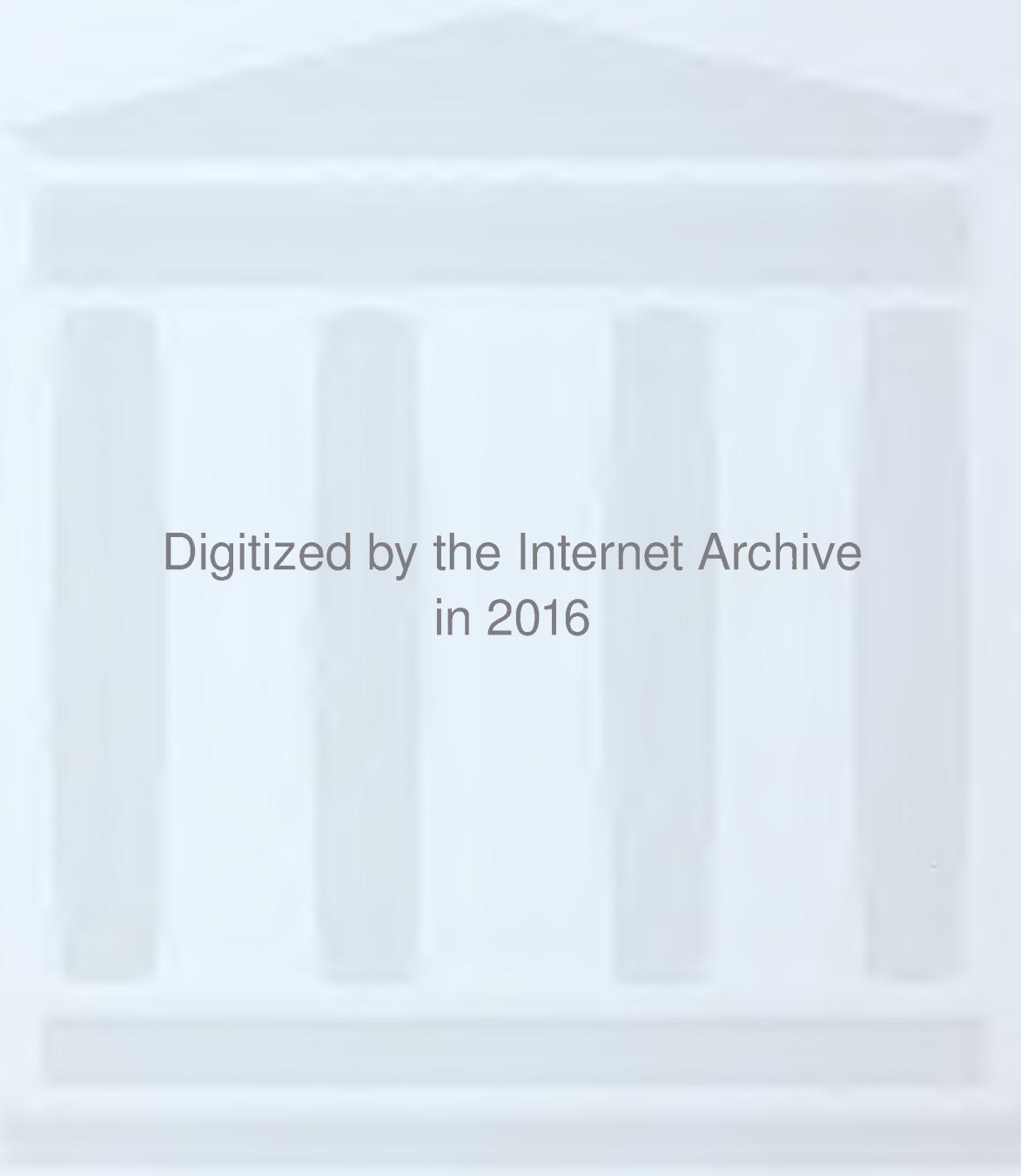


STATE OF MONTANA

STATE EXAMINING BOARD OF COSMETOLOGY

REPORT ON EXAMINATION

Fiscal Year Ended June 30, 1968



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APPOINTIVE AND ADMINISTRATIVE OFFICIALS

STATE EXAMINING BOARD OF COSMETOLOGY

Board Members

Mrs. Ruby Griffin, President	Billings	1971
Clifford Olofson, Vice President	Missoula	1969
Mrs. June D. Baker, Secretary-Treasurer	Miles City	1972 (1)

Administrative Officials

Mrs. Dorris Dietzen, Executive Secretary	Helena	(2)
--	--------	-----

- (1) Appointed September 1968, replacing Mrs. Dolly Lavelle, Butte, who resigned effective August 1, 1968.  
(2) Appointed September 1968.



SUMMARY OF RECOMMENDATIONS

	<u>Page</u>
Establish and maintain currently a general ledger utilizing the double entry system.	6
Record cash when it is received and deposit it intact on a regularly scheduled basis.	6
Establish control accounts in the general ledger for equipment and a subsidiary ledger in which each equipment item is recorded.	7
Record additions and deletions to equipment in the ledgers on a timely basis.	7
Include a statement of changes in general fixed assets in the annual financial statements.	7
Review legal provisions relating to travel expense with the State Controller to insure that travel expense reimbursement claims are prepared and submitted for payment in accordance with statute provisions.	8
The State Controller review and revise his pre-audit procedures to insure that statute provisions relating to payment of travel expense claims are enforced.	8
Review fire insurance coverage with the State Board of Examiners and eliminate any duplicate coverage where possible.	8
The State Board of Examiners survey the insurance coverage of all state agencies and recommend elimination of any duplicate coverage where possible.	9
Rescind authorization that the secretary be provided additional compensation based upon the amount of transcript fees received.	9
Maintain attendance records and records showing time off earned, taken, and balance for employees' vacation, sick leave, and overtime.	10



MORRIS L. BRUSETT, C.P.A.  
LEGISLATIVE AUDITOR



G. DEAN REED, C.P.A.  
DEPUTY

STATE OF MONTANA  
**Office of the Legislative Auditor**  
STATE CAPITOL  
HELENA

The Legislative Audit Committee  
of the Montana State Legislature:

We have examined the balance sheet of the Montana State Examining Board of Cosmetology as of June 30, 1968, and the related statements of operations, as set forth in the table of contents in this report, for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The financial statements have been prepared on the cash basis of accounting and do not show financial position or operating results as do statements prepared on the modified accrual basis in accordance with generally accepted accounting principles applicable to governmental units.

The Board does not maintain a general ledger nor does it utilize the double entry system of accounting. Statements of revenues and expenditures are prepared directly from registers of receipts and disbursements. The statement of changes in fund balance and balance sheet are prepared by utilizing the prior year financial statements, registers of receipts and disbursements, and the State Controller's report of account balances.

The Board has maintained no control account or subsidiary ledger for its equipment. As noted in the accompanying Statement of Changes in General Fixed Assets, Exhibit E, the equipment balance of \$3,932 contains estimated values



totaling \$1,190. Since no ledger exists to show the equipment values, amounts were determined by reviewing disbursement vouchers for equipment purchases for the past several years and assigning an estimated value for older items or for items for which incomplete information exists.

In our opinion, subject to the exceptions described in the preceding paragraphs, the accompanying financial statements present fairly the financial position of the Montana State Examining Board of Cosmetology's Earmarked Revenue Fund account and General Fixed Assets as of June 30, 1968, and the results of its operations for the year then ended, in conformity with generally accepted governmental accounting principles applied on a basis consistent with that of the preceding year.

We submit the financial statements listed in the preceding table of contents together with the following comments.



## COMMENTS

### GENERAL

The State Examining Board of Cosmetology was created by Montana Statutes of 1929, Chapter 104. This act, as subsequently amended and currently codified in Title 66, Chapter 8, R.C.M. 1947, provides for a three-member board to regulate the practice of cosmetology in Montana. Board members must be cosmetologists and are appointed by the Governor for four year terms. Board members receive compensation of \$20 per day in addition to all necessary expenses while attending board meetings.

Cosmetology consists of beauty treatment generally associated with the terms "hairdressing" and "beauty culture". The main areas of responsibility of the Board are the regulation of cosmetology schools and instructors, cosmetology shops and operators, and the administration of examinations for the practice of cosmetology. A main feature of the board's regulatory duties, in conjunction with the State Board of Health, is to prescribe sanitary rules and inspect beauty schools and shops.

The Board's records indicate there are 15 licensed schools in Montana with about 80 instructors and an average enrollment of approximately 350 students. Beauty shops or salons exceed 600 and there are over 3,000 licensed operators. Examinations for operator and teacher licenses are ordinarily conducted five times a year.

During the year ended June 30, 1968, the Board had two full-time employees - the board secretary, who was a member of the Board, and an inspector. In addition, part-time help was employed during peak periods such as license renewals and examinations. In September 1968, the Board adopted a new organization structure



whereby an executive secretary was employed to administer the Board's operations. This should permit the three board members to better serve their policy making function.

The Board of Cosmetology is self supporting. License fees, examination fees, and other revenues of the Board are deposited into the Board's account in the Earmarked Revenue Fund from which expenditures are made based upon legislative appropriations. The Board's account balance has shown a constant upward trend over the past several years as illustrated in the following tabulation.

<u>Year Ended June 30</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Balance</u>
1964	\$19,665	\$19,855	\$19,461
1965	22,440	22,067	19,834
1966	21,588	20,638	20,784
1967	23,022	20,712	23,094
1968	24,116	21,039	26,171

#### CESSATION OF OPERATIONS

Until August 1, 1968, the operations of the Board of Cosmetology were administered by the Secretary-Treasurer of the Board. In this capacity, the secretary maintained correspondence with licensees, made arrangements for examinations, supervised the Board's inspector, maintained the Board's files and accounting records, received and deposited board monies, received and submitted claims for payment of the Board's obligations, and other duties. The secretary was a board member until expiration of her term on June 29, 1968. Having not been reappointed to the Board, she resigned her position of Secretary-Treasurer effective August 1, 1968. Subsequent to that time and until the time of commencement of our audit on September 18, 1968, no receipts were deposited or claims



submitted to the State Controller for payment. During this time, correspondence addressed to the Board accumulated without being opened, no licenses were issued, a scheduled examination was cancelled, and the Board's inspection program came to a halt. We believe it to be a significant deficiency that the State's system and organization would permit such a cessation of operations of a state agency.

In late September 1968, a new member was appointed to the Board. In addition, an executive secretary was employed by the Board to get the Board back in business and to administer board operations. The appointment of an executive secretary is a step in the right direction but it does not assure that a similar occurrence will not happen again. The possibility of a cessation or curtailment of operations will remain so long as the administration of some state agencies is dependent upon the functioning of a single employee. The problems would be minimized if the Board were prompt in replacing terminated employees. Of course the termination of employment of a single employee should not have a serious effect upon the administrative operations if the administrative function of the various professional and occupational licensing boards was consolidated.

#### ACCOUNTING SYSTEM

The accounting system of the Board of Cosmetology does not adequately account for the Board's assets or operations. The Board is a small operation compared to most state agencies but the basic governmental accounting principles apply to any governmental unit entrusted with public assets or resources.

No general ledger or double entry system is maintained. A general ledger should be maintained and posted on a monthly basis to properly reflect changes and balances of the Board's assets and account balance. The double entry system should be used so as to show the dual effect of every transaction and maintain



the accounts in equilibrium

RECOMMENDATION

We recommend that the Board establish and maintain currently a general ledger utilizing the double entry system.

CASH PROCEDURES

It has been the practice of the Board to hold cash received until all the records relating to an application or other accompanying document are in order before writing receipts and depositing the cash with the State Treasurer. Generally accepted internal control standards provide that cash receipts should be recorded as soon as practicable and receipts should be deposited in tact as promptly as possible and on a regularly scheduled basis. We believe this to be particularly important in an agency as small as the Board in which it is difficult to establish adequate internal controls.

RECOMMENDATION

We recommend that the Board record cash when it is received and that it be deposited in tact on a regularly scheduled basis.

UNRECORDED EQUIPMENT

The Board of Cosmetology does not adequately account for its equipment. No control or detail ledgers are maintained. The information contained in the Statement of Changes in General Fixed Assets, Exhibit E of this report, had to be developed by examining claims in payment of equipment purchases for the last several years. As noted in the statement, estimated amounts totaling \$1,190 are included due to the lack of readily available information. This information



should be available from control and detail ledgers posted in the period in which equipment transactions occur.

RECOMMENDATION

We recommend that the Board of Cosmetology:

- (1) Establish control accounts in the general ledger for its equipment and a subsidiary ledger in which each equipment item is recorded.
- (2) Record additions and deletions to equipment in the ledgers on a timely basis.
- (3) Include a statement of changes in general fixed assets in their annual financial statements.

TRAVEL PAYMENTS

Montana Law, Title 59, Sections 537-540, R.C.M. 1947, provides for reimbursement of travel expenses to state employees who travel on state business. Several payments representing reimbursement of board members and employees' travel expenses were made incorrectly during the 1967-68 fiscal year. Some examples are:

- (1) Several claims paid the full day's per diem rate of \$12 whereas lesser amounts should have been paid based upon the times of departure and return.
- (2) Several claims paid per diem to the Board's secretary on days that board meetings and examinations were held even though these meetings were conducted in the secretary's city of residence.
- (3) Several travel claims did not contain an indication of times of departure and return thus precluding any verification of the amounts paid.



These deficiencies indicate a lack of knowledge or concern on the part of board members and employees preparing and approving the travel claims. They further illustrate a deficiency in the State Controller's pre-audit of claims function as set forth in Montana Law Section 82-109.2.

RECOMMENDATION

We recommend that the:

- (1) Board of Cosmetology review the legal provisions relating to travel expenses with the State Controller to insure that claims for reimbursement of travel expense are prepared and submitted for payment in accordance with statute provisions.
- (2) State Controller review and revise his pre-audit procedures to insure that statute provisions relating to payment of travel expense claims are enforced.

DUPLICATE INSURANCE COVERAGE

As shown by the analysis of expenditures in Exhibit D of this report, the Board of Cosmetology paid \$53 in premiums during 1967-68 for fire insurance coverage for equipment owned by the Board. The State Board of Examiners administers a statewide fire insurance policy covering most state-owned property. We are informed by the Board of Examiners' staff that the Board of Cosmetology's equipment is covered by the statewide policy. Although the amount of premium expense involved is relatively small in this instance, the cumulative effect might amount to a substantial sum if other state agencies have duplicate coverage. Accordingly, we believe an examination of statewide coverage is warranted.

RECOMMENDATION

We recommend that the:

- (1) Board of Cosmetology review its fire insurance coverage



- with the State Board of Examiners and eliminate any duplicate coverage where possible.
- (2) Board of Examiners survey the insurance coverage of all state agencies and recommend elimination of any duplicate coverage where possible.

#### ADDITIONAL PAY FOR TRANSCRIPTS

The Board of Cosmetology approved the policy at its November 1967 meeting of allowing the secretary to charge a fee of \$1 for a transcript of records from the Board's files, depositing this fee with the State Treasurer, and then filing a claim for payment of this fee to the secretary. As shown by the analysis of expenditures on Exhibit D, \$99 was paid to the Secretary-Treasurer during 1967-68 under this policy. The reason given for this procedure was to reimburse the secretary for the extra work involved in fulfilling the requests for transcripts. Although the amount involved is relatively insignificant, we believe the policy is not a good one. If additional compensation is warranted, the secretary's salary should be adjusted accordingly.

#### RECOMMENDATION

We recommend that the Board of Cosmetology rescind its authorization that the secretary be provided additional compensation based upon the amount of transcript fees received and, if it shall deem appropriate, make an adjustment in the secretary's salary to cover any work it might consider to be in excess of the normal responsibilities of the job.



## EMPLOYEE ATTENDANCE RECORDS

The Board has maintained no records relating to employees' attendance or of their time off earned and taken for vacation, sick leave, and overtime. The maintenance of attendance records is basic as a support for payment of employees' salaries. The maintenance of records showing employees' vacation, sick leave, and overtime earned, time taken off, and balance is essential to readily determine that time taken off by an employee was earned. Although the Board's number of employees is small, we believe these records are needed for proper administration of the agency. An example of a problem that can develop without such records was illustrated when the Board's new executive secretary was appointed and had no way to verify the amount of time off the Board's inspector had coming. We believe these records should be a required part of a statewide personnel and payroll system.

## RECOMMENDATION

We recommend that the Board maintain employee attendance records and records showing time off earned, taken, and the balance for employees' vacation, sick leave, and overtime.

## CONCLUSION

The State Examining Board of Cosmetology is a relatively small state agency. There is only one full-time office employee and accordingly the establishment of adequate internal controls and maintenance of adequate accounting records is not an easy task. However, the implementation of a double entry system built around currently maintained general and subsidiary ledgers together with the other



recommendations contained in this report should result in a basically sound system for the Board pending the development of a standardized statewide accounting system.

We wish to express our appreciation to the state officials and employees with whom we worked for their excellent cooperation.

Respectively submitted,



MORRIS L. BRUSSETT  
Legislative Auditor

November 21, 1968



MONTANA STATE EXAMINING BOARD OF COSMETOLOGY  
BALANCE SHEET  
June 30, 1968

	Earmarked Revenue Fund	General Fixed Assets
<u>Assets</u>		
Cash in State Treasury	\$ 13,171	\$ -
Investments (at Par):		
U.S. Treasury Bonds, 4%	\$ 8,000	
Federal Land Bank Bond, 5 1/8%	<u>5,000</u>	13,000
Equipment (1)		<u>3,932</u>
Total Assets	<u><u>\$ 26,171</u></u>	<u><u>\$ 3,932</u></u>
<u>Reserves and Fund Balance</u>		
Reserve for Investment in General Fixed Assets (1)	\$ -	\$ 3,932
Fund Balance - Exhibit B	<u>26,171</u>	<u>-</u>
Total Reserves and Fund Balance	<u><u>\$ 26,171</u></u>	<u><u>\$ 3,932</u></u>

(1) See note to Exhibit E



MONTANA STATE EXAMINING BOARD OF COSMETOLOGY  
EARMARKED REVENUE FUND  
STATEMENT OF CHANGES IN FUND BALANCE  
Fiscal Year Ended June 30, 1968

Fund Balance, July 1, 1967 \$ 23,094

### Additions:

Revenue - Exhibit C 24,116

Total Balance and Additions \$ 47,210

### Deductions:

Expenditures - Exhibit D 21.039

Fund Balance, June 30, 1968 \$ 26.171



MONTANA STATE EXAMINING BOARD OF COSMETOLOGY  
 EARMARKED REVENUE FUND  
STATEMENT OF REVENUE  
 Fiscal Years Ended June 30, 1967 and 1968

	<u>Fiscal Year Ended June 30,</u>	
	<u>1967</u>	<u>1968</u>
<b>License Fees:</b>		
Manager-Operator	\$ 8,200	\$ 8,680
Operator	4,686	4,902
Exchange of Operator for Manager	224	242
Reciprocity	600	600
New Shop	425	490
Shop Renewals	1,770	1,800
Instructor	420	430
School	525	550
Temporary	404	398
Duplicate of Lost Licenses	17	21
Back Dues	141	156
 Total License Fees	 17,412	 18,269
 Examination Fees	 3,610	 3,270
 Late Fines	 943	 1,270
 Sales of Board Rules, Law Books, Transcripts, and Supplies	 487	 449
 Interest Earnings and Gain on Reinvestment of Bonds	 459	 788
 Proceeds from Sale of Equipment	 50	 -
 Other	 61	 70
 <b>Total</b>	 <b>\$ 23,022</b>	 <b>\$ 24,116</b>

NOTE - Revenue for the fiscal year ended June 30, 1967 was not audited but is presented for information purposes.



MONTANA STATE EXAMINING BOARD OF COSMETOLOGY  
EARMARKED REVENUE FUND  
STATEMENT OF EXPENDITURES AND ENCUMBRANCES COMPARED WITH APPROPRIATIONS  
Fiscal Year Ended June 30, 1968

	<u>1967-68</u>			<u>Carryover</u>
	<u>Appropriation</u>	<u>Expenditures</u>	<u>Encumbrances</u>	<u>to 1968-69</u>
Operation and Capital	\$ 23,518	\$ 20,903	\$ -	\$ 2,615
Grants and Benefits	<u>1,000</u>	<u>136</u>	<u>-</u>	<u>864</u>
<b>Total</b>	<b><u>\$ 24,518</u></b>	<b><u>\$ 21,039</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 3,479</u></b>

ANALYSIS OF EXPENDITURES

## Personal Services:

## Salaries:

## Secretary:

Regular Salary	\$ 5,208	
Transcript Fees	99	
Total	<u>5,307</u>	
Inspector	3,900	
Board Members	940	
Clerical	<u>670</u>	<u>\$ 10,817</u>
Employee Benefits		<u>800</u>
<b>Total Personal Services</b>		<b><u>11,617</u></b>

## Operation:

Office Supplies	\$ 270	
Postage	62	
Printing	1,331	
Telephone	366	
Rent	360	
Fire Insurance Premium	53	
Travel Expense	<u>5,486</u>	
Attorney Fees	600	
Repairs	29	
Dues and Registration Fees	140	
Examination Expense	148	
Refunds	<u>50</u>	
<b>Total Operation</b>		<b><u>8,895</u></b>

## Capital:

Equipment	<u>527</u>	
<b>Total</b>		<b><u>\$ 21,039</u></b>



MONTANA STATE EXAMINING BOARD OF COSMETOLOGY  
STATEMENT OF CHANGES IN GENERAL FIXED ASSETS  
Fiscal Year Ended June 30, 1968

Equipment - Balance, July 1, 1967	\$ 3,405
Additions:	
1967-68 Purchases	<u>527</u>
Equipment - Balance, June 30, 1968	<u>\$ 3,932</u>

NOTE - The beginning and ending equipment balance contains estimated values of equipment totaling \$1,190.





